

ORIGINAL



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MEMORANDUM

TO: Docket Control

FROM: Steve M. Olea  
Director  
Utilities Division

*EA for SMD*

DATE: January 4, 2010

RE: STAFF REPORT FOR GRANITE MOUNTAIN WATER COMPANY  
APPLICATIONS FOR A PERMANENT RATE INCREASE, DOCKET NO. W-  
02467A-09-0333 AND FINANCING APPROVAL DOCKET NO. W-02467A-09-  
0334

Attached is the Staff Report for Granite Mountain Water Company's applications for a permanent rate increase and financing approval. Staff recommends approval of the permanent rate increase application using Staff's recommended rates and charges. Staff recommends denial of the financing approval application.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before January 14, 2010.

SMO:CRM:kdh

Originator: Charles R. Myhlhousen

Attachment: Original and sixteen copies

Arizona Corporation Commission

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Service List for: Granite Mountain Water Company  
Docket Nos. W-02467A-09-0333 and W-02467A-09-0334

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**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**GRANITE MOUNTAIN WATER COMPANY**

**DOCKET NOS. W-02467A-09-0333  
W-02467A-09-0334**

**APPLICATION FOR A  
PERMANENT RATE INCREASE  
AND  
FINANCING APPROVAL**

**JANUARY 04, 2010**

## STAFF ACKNOWLEDGMENT

The Staff Report for Granite Mountain Water Company, Docket Nos. W-02467A-09-0333 and W-02467A-09-0334 was the responsibility of the Staff members listed below. Charles R. Myhlhousen was responsible for the review and analysis of the Company's applications, recommended revenue requirement, rate base, rate design, and financial analysis. Dorothy Hains was responsible for the engineering and technical analysis. Bradley Morton was responsible for reviewing the Commission's records on the Company and reviewing customer complaints filed with the Commission.

Charles R. Myhlhousen  
Charles R. Myhlhousen  
Public Utility Analyst III

Dorothy Hains  
Dorothy Hains  
Utilities Engineer

Bradley G. Morton  
Bradley Morton  
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY**  
**GRANITE MOUNTAIN WATER COMPANY**  
**DOCKET NOS. W-02467A-09-0333 AND W-02467A-09-0334**

Granite Mountain Water Company ("Company") is located approximately three miles north of the City of Prescott off the Williamson Valley Road in Yavapai County. The system is located in the Prescott Active Management Area. The Company is engaged in the business of providing utility water service in Arizona to approximately 96 metered customers and 5 unmetered customers. The Company's current rates were effective December 1, 1994, in Decision No. 58869.

The Company's rate application requested an increase in revenue of \$14,797 or 18.35 percent over test year revenue of \$80,626. The Company's proposed revenues of \$95,423 result in an operating income of \$16,705, for a rate of return of 5.28 percent. The Company's proposed original cost rate base ("OCRB") is \$316,296. The Company's proposed rates would increase the typical 5/8 x 3/4 inch meter residential bill with a median usage of 5,429 gallons from \$44.71 to \$53.66, for an increase of \$8.95 or 20.0 percent.

Staff is recommending an increase in revenue of \$29,949 or a 37.15 percent increase over test year revenue of \$80,626. Staff's recommended revenues of \$110,575, result in an operating income of \$32,616, for a rate of return of 10.00 percent. Staff's recommended OCRB is \$326,014. Staff's recommended rates would increase the typical 5/8 x 3/4 inch meter residential bill with a median usage of 5,429 gallons from \$44.71 to \$56.00, for an increase of \$11.29 or 25.3 percent. Staff is recommending a larger revenue requirement than requested by the Company because the Company omitted certain costs in its original application.

Staff's recommendation will allow the Company sufficient revenue to pay expenses and for contingencies.

The Company filed a financing approval application on June 30, 2009. The Company secured a line of credit with JP Morgan Chase Bank without the Commission approval and has drawn on this line of credit. Staff recommends denial of the financing approval application.

Staff recommends:

- That the Commission approve Staff's rates and charges as shown on Schedule CRM-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule (14-2-409D-5).
- That the Company be ordered to docket with the Commission, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

- That the Company obtain the Commission's approval for any long-term financing prior to its execution of any loans in the future.
- That in the future, if the Company secures financing without first obtaining approval from the Commission, Staff may initiate an order to show cause.
- That, in the future, if the Company executes any unapproved loans, these amounts be treated as paid-in-capital for ratemaking purposes.
- That the Company be ordered to use depreciation rates by individual National Association of Regulatory Utility Commissioners category on a going-forward basis as delineated in Exhibit 6 of the Engineering Report.
- That the Company continue to monitor its water use data to ensure that water loss remains within acceptable limits. A 20.5 percent water loss was determined in the test year. The Company believes that water loss was due to theft during the test year. The Company stated that the theft condition had been addressed and water loss since the test year has been within the acceptable limit. To support its position the Company provided water usage data collected after December 2008. The recent water usage data from January 2009 to September 2009 indicates that water loss has been reduced to 7.6 percent. (See paragraph D of the Engineering Report for discussion and details).
- That copies of the Approval of Construction for the new 50,000 gallons storage tank be docketed as a compliance item in this case within six months of the effective date of the order issued in this proceeding. (See paragraph K of the Engineering Report for discussion and details).
- That, in addition to the above tank, the Company hires an Arizona registered engineer to design the 110,000 gallon storage addition recommended by Staff in this matter. Staff further recommends that copies of the Arizona Department of Environmental Quality ("ADEQ") Approval to Construct for this storage addition be docketed as a compliance item in this case within six months of the effective date of the order issued in this proceeding. Staff further recommends that copies of the Approval of Construction for this storage addition be docketed as a compliance item in this case within eighteen months of the effective date of the order issued in this proceeding. (See paragraph K of the engineering report for discussion and details).
- That the Company re-notify its customers of Staff's recommended increase in revenue and rates over the Company's proposed revenue and rates.

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## **SCHEDULES**

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## **ATTACHMENT**

Engineering Report .....	A
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**Fact Sheet**

**Current Rates** Decision No. 58869, November 30, 1994, rates effective December 1, 1994.

**Type of Ownership** Arizona Sub-Chapter "S" Corporation.

**Location** The Company is located approximately three miles north of the City of Prescott, Arizona off the Williamson Valley Road in Yavapai County.

**Rates**

Permanent rate increase application filed: June 30, 2009, amended August 14, 2009, and September 17, 2009.

Current Test Year Ended: December 31, 2008.

Financing application was filed: June 30, 2009.

Monthly Minimum Charges:

	Company Present <u>Rates</u>	Company Proposed <u>Rates</u>	Staff Recommended <u>Rates</u>
Monthly Minimum Charge Based on 5/8 X 3/4 inch meter	\$23.00	\$27.60	\$28.00
Gallons in Minimum	0	0	0
Commodity Charge Excess of minimum, per 1,000 gallons			
0 gallons to 10,000 gallons	4.00		
All gallons over 10,000 gallons	5.00		
0 gallons to 10,000 gallons		4.80	
10,001 gallons to 20,000 gallons		6.00	
All gallons over 20,000 gallons		9.00	
0 gallons to 4,000 gallons			4.50
4,001 gallons to 10,000 gallons			7.00
All gallons over 10,000 gallons			9.25
Typical residential bill (Based on median usage of 5,429 gallons)	\$44.71	\$53.66	\$56.00

**Customers**

Average number of customers in prior test year of 1993 was 12, in the current test year there are 96 metered customers and 5 unmetered customers.

**Notification**

A corrected affidavit of mailing of the customer notification for a permanent rate increase and financing approval was mailed on August 21, 2009.

**Complaints**

2006 through 2008 – no complaints. January 1, 2009 through December 2, 2009 – no complaints.

### **Summary of Filing**

Based on test year results, as adjusted by Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission"), Granite Mountain Water Company ("Company") had operating income of \$2,667, for a rate of return of 0.82 percent as shown on Schedule CRM-1.

The Company-proposed rates produce operating revenue of \$95,423 and an operating income of \$16,705, for a rate of return of 5.28 percent. The Company's proposed rates would increase the typical residential bill with a median usage of 5,429 gallons from \$44.71 to \$53.66, for an increase of \$8.95 or 20.0 percent. The Company's proposed fair value rate base ("FVRB") is \$316,296, which does not differ from its original cost rate base ("OCRB").

Staff's recommended rates produce operating revenue of \$110,575 and an operating income of \$32,616, for a rate of return 10.00 percent. Staff's recommended rates would increase the typical residential bill with a median usage of 5,429 gallons from \$44.71 to \$56.00, for an increase of \$11.29 or 25.3 percent. Staff is recommending a larger revenue requirement than requested by the Company because the Company omitted certain costs in its original application. Staff's recommended OCRB is \$326,014.

The Company is a class D utility.

### **Company Background**

The Company received its Certificate of Convenience and Necessity ("CC&N") in Decision No. 54902, dated February 20, 1986.

On June 30, 2009, the Company filed an application for a permanent rate increase with the Commission. On July 30, 2009, the Company filing was found deficient. On August 14, 2009, and September 17, 2009, the Company submitted the deficient items. On October 19, 2009, the Company's application was deemed sufficient. The Company's current test year ending is December 31, 2008.

On June 30, 2009, the Company filed an application for financing approval.

The Hearing Division issued a Procedural Order on August 11, 2009, consolidating the permanent rate increase application and the financing approval application. The Procedural Order also required the Company to re-notify its customers of the permanent rate increase application and the financing application.

### **Consumer Services**

A review of the Commission's records from January 1, 2006, through December 2, 2009, revealed no customer complaints and three opinions against the rate increase.

### **Compliance**

A check with the Utilities Division Compliance Section showed no outstanding compliance issues.

The Company is current in its property and sales tax payments.

The Company is in good standing with the Corporations Division of the Commission.

A compliance status report from Arizona Department of Environmental Quality ("ADEQ") dated May 27, 2009, states that the system (ADEQ Public Water System Identification No. 13-1500) has no major deficiencies. ADEQ has determined that the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

The Company is located in the Prescott Active Management Area ("AMA") as designed by Arizona Department of Water resources ("AWR") and is subject to AMA reporting and conservation rules. According to compliance status report from ADWR dated October 20, 2009, ADWR has determined that the Company is currently in compliance with departmental requirements governing water providers and/or community water systems.

### **Rate Base**

The Company's original cost rate base in the application is \$316,296. Staff made adjustments to increase the Company's rate base by \$9,718 from \$316,296 to \$326,014. Adjustments are discussed below. See Schedule CRM-2 page 1.

### **Plant-in-Service**

Staff reclassified and moved \$10,705 from account "other plant and misc. equipment" (account No. 339) to account "transmission and distribution mains" (account No. 331).

Staff reclassified and moved \$19,443 from account "other plant and misc equipment" (account No. 339) to account "pressure tanks" (account No. 330.2).

Staff reclassified and moved \$35,771 from account "structure and improvements" (account No. 304) to account "pressure tanks" (account No. 330.2).

These three adjustments did not change the total value of plant in service of \$720,673. See Schedule CRM-2 page 2.

### **Accumulated Depreciation**

Staff decreased accumulated depreciation by \$4,290 from \$387,972 to \$383,682. The Company did not compute depreciation using the authorized depreciation rates from the prior rate case decision. The authorized depreciation rate is 5 percent. See Schedule CRM-2 page 3.

Staff's accumulated depreciation amount was calculated by adding depreciation expense for the years from January 1, 1994 through the end of the test year of 2008. Staff subtracted accumulated depreciation for plant retirements. This balance was added to the Commission approved accumulated depreciation balance in the prior test year ended December 31, 1993, of \$43,646. This computation results in accumulated depreciation of \$383,682. See Schedule CRM-2 page 3.

### **Advances-in-Aid-of-Construction**

The Company has advances-in-aid-of-construction ("AIAC"). Staff verified the amount from available information. Staff concurs with the Company's claimed AIAC.

### **Contributions-in-Aid-of-Construction**

The Company has no contributions-in-aid-of-construction.

### **Working Capital**

The Company did not claim any working capital allowance. Staff typically allows cash working capital allowance calculated by the formula method for small class D and E utilities. The formula method always produces a positive cash working capital need. Staff recommends working capital allowance in the amount of \$5,428. See schedule CRM-2 page 1.

### **Operating Revenue**

Staff did not make any adjustment to the Company's test year revenue. See Schedule CRM-1.

### **Operating Expenses**

Staff adjustments to operating expenses resulted in a decrease of \$759 from \$78,718 to \$77,959 as shown on Schedule CRM-3 pages 1 and 2. Adjustments are discussed below.

Adjustment 1: Staff increased salaries and wages expense by \$19,563 from \$0 to \$19,563 to allow salaries and wages that were being paid by Chino Meadows II Water Company, Inc. These two water companies were sharing employees. This amount represents Staff's calculation of the appropriate portion attributed to the Company's operations. See Schedule CRM-3 pages 1 and 2.

Adjustment 2: Staff decreased outside services expense by \$14,928 from \$26,725 to \$11,797. Staff removed the wages paid to Shane Levie and Lask Larson in the amount of \$1,855. This was for temporary one-time labor. The Company employees are now doing these duties. Staff removed \$1,973 paid to Moyes and Storey as legal fees for one-time legal advice pertaining to post-test year planned plant construction. Staff also removed \$11,100 of expenses pertaining to post-test year plant which are expenditures that should be included in future capital assets. See Schedule CRM-3 pages 1 and 2.

Adjustment 3: Staff increased water testing by \$1,823 from \$0 to \$1,823 to reflect Staff's recommended expense level. This adjustment reflects the normalized annual water testing costs determined per Staff's Engineering Report at Table 1. See Schedule CRM-3 pages 1 and 2.

Adjustment 4: Staff decreased regulatory commission expense-rate case by \$1,358 from \$1,646 to \$288. Staff removed a \$2,000 penalty assessed on well no. 4, and also removed a \$642 credit reclassification that should have been in water testing. This amount is part of the water testing expense recommended by Staff Engineer. See Schedule CRM-3 pages 1 and 2.

Adjustment 5: Staff decreased depreciation expense by \$5,859 from \$33,233 to \$27,374 to reflect the going-forward depreciation rates recommended by Staff's Engineer. See Schedule CRM-3 page 1 and 2.

### **Rate of Return**

Staff's recommended revenue gives the Company a ten percent rate of return. The rate of return is within the range of the typical rate of return recommended by Staff. See Schedule CRM-1.

### **Revenue Requirement**

Staff recommends total operating revenue of \$110,575, an increase of \$29,949, over the Company's test year revenue of \$80,626. Staff's recommendation provides operating income of \$32,616. See Schedule CRM-1.

### **Rate Design**

Schedule CRM-4 reflects a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The Company's proposed rates would increase the typical 5/8 x 3/4 inch meter residential customer bill with a median usage of 5,429 gallons from \$44.71 to \$53.66 for an increase of \$8.95 or 20.0 percent.

Staff's recommended rates would increase 5/8 x 3/4 inch meter residential customer bill with a median usage of 5,429 gallons from \$44.71 to \$56.00 for an increase of \$11.29 or 25.3 percent. See Schedule CRM-5.

The Company currently has a two-tier rate design for all meter sizes. Staff recommends a three-tier inverted rate design for the 5/8 x 3/4 inch and 3/4 inch meters and a two-tier inverted rate design for larger sizes meters.

Inverted tier rates encourage water conservation.

Staff recommends approval of Staff's Service Line and Meter Installation Charges. Staff's recommendation will help ensure that the Company will have enough cash to pay for the actual installation of service for any meter size.

The Company proposes increases to service charges as follows: (See Schedule CRM-4.)

The Company proposes an increase to Establishment charge from \$15.00 to \$25.00. Staff concurs.

The Company proposes an increase to Establishment (after hours) from \$25.00 to \$35.00. Staff concurs.

The Company proposes an increase to Reconnection (delinquent) from \$25.00 to 35.00. Staff concurs.

The Company proposes an increase to Reconnection (delinquent after hours) from \$25.00 to \$45.00. Staff concurs.

The Company proposes not to change Meter Test charge from \$35.00. Staff concurs.

The Company proposes not to change Deposit as per rule. Staff concurs.

The Company proposes not to change Deposit Interest as per rule. Staff concurs.

The Company proposes not to change Re-establishment (within 12 months per month). Staff concurs.

The Company proposes an increase to Not Sufficient Funds check from \$15.00 to \$20.00. Staff concurs.

The Company proposes not to change Deferred Payment from 1.00 percent. Staff concurs.

The Company proposes an increase to Meter Re-read (if correct) from \$10.00 to \$15.00. Staff concurs.

The Company proposes an increase to Late Fee from zero to 1.5 percent. Staff concurs.

## **FINANCING**

### **Introduction**

On June 30, 2009, the Company filed a financing application with the Commission requesting authorization to obtain a \$125,000 line of credit from JP Morgan Chase Bank. The purpose of the financing is to fund needed future development of the Granite Mountain Water Company infrastructure and water storage, primarily for the design and construction of a 50,000 gallons water storage tank, retaining wall, and required fencing.

The line of credit monthly payments will be interest only based on the calculations of JP Morgan Chase Bank, during the construction of the tank and the infrastructure related to the tank. Payments towards the outstanding debt at the completion of construction will be monthly and based on a combination of principal and interest payments. The minimum payment will be the required interest only payment. The principal payment will be determined by the availability of funds of the Company.

The Company has already secured the line of credit from JP Morgan Chase Bank. The line of credit is secured by a deposit account at JP Morgan Chase Bank in the amount of \$125,000 owned by Paul and Rae Levie.

The Company did not seek Commission approval of the line of credit financing with JP Morgan Chase Bank before securing the line of credit with the bank or before beginning the construction project.

The Company has already drawn down on the line of credit. The retaining wall, fencing and tank has been installed. The project is completed with the exception that the new storage tank is not connected to the existing system. The Company did not get the approval to construct from ADEQ.

Staff determined that this is not a loan, but was misstated and mislabeled as a loan by the Company in the financing application. Staff recommends that it be classified as paid-in-capital. This amount is paid-in-capital, not a loan, and therefore needs no Commission approval. Staff recommends that this amount be treated as paid-in-capital.

The Company also included three additional paid in full loans in the permanent rate increase application. The loans were for the amounts of \$27,773.65, issued January 5, 2004, \$26,365.00 issued March 23, 2006, and 78,655.00 issued April 23, 2007. There was no interest rate on these loans. All three loans were paid in full as of December 31, 2008.



The three loans were secured from Paul D. and Rae Levie Trust. The Company did not ask for or secure the Commission's approval for these loans. Since these loans are paid in full Staff determined that these amounts need no further consideration.

Staff believes that the Company should be instructed to obtain prior approval from the Commission before any loans are negotiated.

### **Conclusions – Financing**

The Company did not secure the Commission approval for any of these loans before securing the loans. The financing application in the amount of \$125,000 was secured without Commission approval and should be classified as paid-in-capital. The other three loans are paid in full and Staff makes no recommendations for these loans.

Staff also recommends that sanctions be applied to the Company if, in the future, the Company secures financing without first obtaining approval from the Commission.

### **Staff Recommendations**

Staff recommends:

- That the Commission approve Staff's rates and charges as shown on Schedule CRM-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule (14-2-409D-5).
- That the Company be ordered to docket with the Commission, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
- That the Company obtains the Commissions' approval for any long-term financing prior to its execution of any loans in the future.
- That in the future, if the Company secures financing without first obtaining approval from the Commission, Staff may initiate an order to show cause.
- That, in the future, if the Company executes any unapproved loans, these amounts be treated as paid-in-capital for ratemaking purposes.
- That the Company be ordered to use depreciation rates by individual National Association of Regulatory Utility Commissioners category on a going-forward basis as delineated in Exhibit 6 of the Engineering Report.

- That the Company continue to monitor its water use data to ensure that water loss remains within acceptable limits. A 20.5 percent water loss was determined in the test year. The Company believes that water loss was due to theft during the test year. The Company stated that the theft condition had been addressed and water loss since the test year has been within the acceptable limit. To support its position the Company provided water usage data collected after December 2008. The recent water usage data from January 2009 to September 2009 indicates that water loss has been reduced to 7.6 percent. (See paragraph D of the Engineering Report for discussion and details).
- That copies of the Approval of Construction for the new 50,000 gallons storage tank be docketed as a compliance item in this case within six months of the effective date of the order issued in this proceeding. (See paragraph K of the Engineering Report for discussion and details).
- That, in addition to the above tank, the Company hires an Arizona registered engineer to design the 110,000 gallon storage tank addition recommended by Staff in this matter. Staff further recommends that copies of the ADEQ Approval to Construct for this storage addition be docketed as a compliance item in this case within six months of the effective date of the order issued in this proceeding. Staff further recommends that copies of the Approval of Construction for this storage addition be docketed as a compliance item in this case within eighteen months of the effective date of the order issued in this proceeding. (See paragraph K of the Engineering Report for discussion and details).
- Staff recommends that the Company re-notify its customers of Staff's recommended increase in revenue and rates over the Company's proposed revenue and rates.

## SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
<b>Revenues:</b>				
Metered Water Revenue	\$73,801	\$73,801	\$88,598	\$103,750
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	6,825	6,825	6,825	6,825
<b>Total Operating Revenue</b>	<b>\$80,626</b>	<b>\$80,626</b>	<b>\$95,423</b>	<b>\$110,575</b>
<b>Operating Expenses:</b>				
Operation and Maintenance	\$43,594	\$48,694	\$43,594	\$48,694
Depreciation	33,233	27,374	33,233	27,374
Property & Other Taxes	1,891	1,891	1,891	1,891
Income Tax	0	0	0	0
<b>Total Operating Expense</b>	<b>\$78,718</b>	<b>\$77,959</b>	<b>\$78,718</b>	<b>\$77,959</b>
<b>Operating Income/(Loss)</b>	<b>\$1,908</b>	<b>\$2,667</b>	<b>\$16,705</b>	<b>\$32,616</b>
<b>Rate Base O.C.L.D.</b>	<b>\$316,296</b>	<b>\$326,014</b>	<b>\$316,296</b>	<b>\$326,014</b>
<b>Rate of Return - O.C.L.D.</b>	<b>0.60%</b>	<b>0.82%</b>	<b>5.28%</b>	<b>10.00%</b>
<b>Operating Margin</b>	<b>2.37%</b>	<b>3.31%</b>	<b>17.51%</b>	<b>29.50%</b>

NOTE: Operating margin is the percentage of operating income to operating revenue.

## RATE BASE

	----- Original Cost -----			
	Company	Adjustment		Staff
Plant in Service	\$720,673	\$0		\$720,673
Less:				
Accum. Depreciation	387,972	(4,290)	1	383,682
<b>Net Plant</b>	<b>\$332,701</b>	<b>\$4,290</b>		<b>\$336,991</b>
Less:				
Plant Advances	\$14,710	\$0		\$14,710
Customer Deposits	1,695	0		1,695
<b>Total</b>	<b>\$16,405</b>	<b>\$0</b>		<b>\$16,405</b>
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
<b>Net CIAC</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
<b>Total Deductions</b>	<b>\$16,405</b>	<b>\$0</b>		<b>\$16,405</b>
Plus:				
1/24 Power	\$0	\$330	2	\$330
1/8 Operation & Maint.	0	5,098	2	5,098
Inventory	0	0		0
Prepayments	0	0		0
<b>Total Additions</b>	<b>\$0</b>	<b>\$5,428</b>		<b>\$5,428</b>
<b>Rate Base</b>	<b>\$316,296</b>	<b>\$9,718</b>		<b>\$326,014</b>

### Explanation of Adjustment:s

- 1 Accumulated depreciation was decreased by \$4,290 from \$387,972 to \$383,682. Staff recomputed depreciation expense starting from the last rate case to December 31, 2008. The Company used incorrect depreciation rates and failed to reduce accumulated depreciation for the plant asset removed from service.
- 2 Staff increased rate base to include cash working capital of \$5,428. The company did not

## PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$110	\$0	\$110
302 Franchises	0	0	0
303 Land & Land Rights	0	0	0
304 Structures & Improvements	57,379	(35,771) 2	21,608
307 Wells & Springs	38,472	0	38,472
311 Pumping Equipment	104,270	0	104,270
320 Water Treatment Equipment	1,661	0	1,661
330 Distribution Reservoirs & Standpipes	7,325	0	7,325
330.2 Pressure Tanks	0	55,214 1&2	55,214
331 Transmission & Distribution Mains	401,499	10,705 1	412,204
333 Services	55,852	0	55,852
334 Meters & Meter Installations	3,434	0	3,434
335 Hydrants	8,774	0	8,774
336 Backflow Prevention Devices	1,027	0	1,027
339 Other Plant and Misc. Equipment	34,998	(30,148) 1	4,850
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipment	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	5,000	0	5,000
346 Communication Equipment	853	0	853
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	20	0	20
105 C.W.I.P.	0	0	0
<b>TOTALS</b>	<b>\$720,673</b>	<b>\$0</b>	<b>\$720,673</b>

**Explanation of Adjustment:**

- 1 Staff reclassified \$10,705 from other plant and miscellaneous account to the transmission and distribution lines account.
- 1 Staff reclassified \$19,443 from other plant and miscellaneous account to pressure tanks account.
- 2 Staff reclassified \$35,771 from structures and improvements account to pressure tank account.

**Granite Mountain Water Company, Inc.**

Docket No. W-02467A-09-0333

Test Year Ended December 31, 2008

Schedule CRM-2

Page 3 of 3

**ACCUMULATED DEPRECIATION ADJUSTMENT**

Amount

Accumulated Depreciation - Per Company

\$387,972

Accumulated Depreciation - Per Staff

383,682

1

**Total Adjustment**

(\$4,290)

**Explanation of Adjustment:**

- 1 Staff decreased accumulated depreciation by \$4,290 from \$387,972 to \$383,682. Staff recomputed depreciation expense starting from the last rate case to December 31, 2008.  
The Company used incorrect depreciation rates and also failed to reduce accumulated depreciation for the plant asset removed from service.

## STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
<b>Revenues:</b>			
461 Metered Water Revenue	\$73,801	\$0	\$73,801
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	6,825	0	6,825
<b>Total Operating Revenue</b>	<b>\$80,626</b>	<b>\$0</b>	<b>\$80,626</b>
<b>Operating Expenses:</b>			
601 Salaries and Wages	\$0	\$19,563 1	\$19,563
610 Purchased Water	0	0	0
615 Purchased Power	7,913	0	7,913
618 Chemicals	0	0	0
620 Repairs and Maintenance	1,422	0	1,422
621 Office Supplies & Expense	4,183	0	4,183
630 Outside Services	26,725	(14,928) 2	11,797
635 Water Testing	0	1,823 3	1,823
641 Rents	1,250	0	1,250
650 Transportation Expenses	455	0	455
657 Insurance - General Liability	0	0	0
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	1,646	(1,358) 4	288
675 Miscellaneous Expense	0	0	0
403 Depreciation Expense	33,233	(5,859) 5	27,374
408 Taxes Other Than Income	0	0	0
408.11 Property Taxes	1,891	0	1,891
409 Income Tax	0	0	0
<b>Total Operating Expenses</b>	<b>\$78,718</b>	<b>(\$759)</b>	<b>\$77,959</b>
<b>OPERATING INCOME/(LOSS)</b>			
	<b>\$1,908</b>	<b>\$759</b>	<b>\$2,667</b>

## STAFF ADJUSTMENTS

1	SALARIES AND WAGES - Per Company	\$0	
	Per Staff	19,563	\$19,563

The Company did not claim any wages in the test year. Employees of Chino Meadows II Water Company were being shared with this Company and no reimbursement was made to CMIWC.

2	OUTSIDE SERVICES - Per Company	\$26,725	
	Per Staff	11,797	(\$14,928)

Staff removed the wages paid to Shane Levie and Isak Larson. This was for temporary one-time labor in the amount of \$1,855. Staff removed \$1,973 paid to Moyes & Storey as legal fees. These fees pertain to post-test year plant items. Staff removed \$11,100 of expense for post-test year plant which are capital assets.

3	WATER TESTING - Per Company	\$0	
	Per Staff	1,823	\$1,823

This adjustment reflects annual water testing expenses determined per Staff's Engineering Report at Table 7.

3	REGULATORY COMMISSION EXPENSE - RATE CASE		
	- Per Company	\$1,646	
	Per Staff	288	(\$1,358)

Staff removed a \$2,000 penalty on well # 4, and moved a negative \$642 reclassification that should have been in water testing.

5	DEPRECIATION - Per Company	\$33,233	
	Per Staff	27,374	(\$5,859)

The Company used the incorrect depreciation rates in computing the depreciation expense. The Company did not use the approved 5 percent rate. Staff used the going forward depreciation rates.



## RATE DESIGN

<u>Monthly Usage Charge</u>	<u>Present Rates</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
5/8" x 3/4" Meter	\$23.00	\$27.60	\$28.00
3/4" Meter	33.75	40.50	45.00
1" Meter	56.25	67.50	65.00
1½" Meter	112.50	135.00	150.00
2" Meter	180.00	216.00	240.00
3" Meter	337.50	405.00	480.00
4" Meter	565.50	678.60	750.00
6" Meter	1,125.00	1,350.00	1,500.00
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
<u>5/8 inch x 3/4 inch meter</u>			
0 gallon to 10,000 gallons	4.00	n/a	n/a
all gallons over 10,000 gallons	5.00	n/a	n/a
0 gallon to 10,000 gallons	n/a	4.80	n/a
10,001 to 20,000 gallons	n/a	6.00	n/a
all gallons over 20,000 gallons	n/a	9.00	n/a
0 gallon to 4,000 gallons	n/a	n/a	4.50
4,001 to 10,000 gallons	n/a	n/a	7.00
all gallons over 10,000 gallons	n/a	n/a	9.25
<u>3/4 inch meter</u>			
0 gallon to 10,000 gallons	4.00	n/a	n/a
all gallons over 10,000 gallons	5.00	n/a	n/a
0 gallon to 10,000 gallons	n/a	4.80	n/a
10,001 to 20,000 gallons	n/a	6.00	n/a
all gallons over 20,000 gallons	n/a	9.00	n/a
0 gallon to 4,000 gallons	n/a	n/a	4.50
4,001 to 10,000 gallons	n/a	n/a	7.00
all gallons over 10,000 gallons	n/a	n/a	9.25
<u>one inch meter</u>			
0 gallon to 10,000 gallons	4.00	n/a	n/a
all gallons over 10,000 gallons	5.00	n/a	n/a
0 gallon to 10,000 gallons	n/a	4.80	n/a
10,001 to 20,000 gallons	n/a	6.00	n/a
all gallons over 20,000 gallons	n/a	9.00	n/a
0 gallons to 10,000 gallons	n/a	n/a	7.00
all gallons over 10,000 gallons	n/a	n/a	9.25

one and one-half inch meter

0 gallon to 10,000 gallons	4.00	n/a	n/a
all gallons over 10,000 gallons	5.00	n/a	n/a
0 gallon to 10,000 gallons	n/a	4.80	n/a
10,001 to 20,000 gallons	n/a	6.00	n/a
all gallons over 20,000 gallons	n/a	9.00	n/a
0 gallons to 20,000 gallons	n/a	n/a	7.00
all gallons over 20,000 gallons	n/a	n/a	9.25

two inch meter

0 gallon to 10,000 gallons	4.00	n/a	n/a
all gallons over 10,000 gallons	5.00	n/a	n/a
0 gallon to 10,000 gallons	n/a	4.80	n/a
10,001 to 20,000 gallons	n/a	6.00	n/a
all gallons over 20,000 gallons	n/a	9.00	n/a
0 gallon to 40,000 gallons	n/a	n/a	7.00
all gallons over 40,000 gallons	n/a	n/a	9.25

three inch meter

0 gallon to 10,000 gallons	4.00	n/a	n/a
all gallons over 10,000 gallons	5.00	n/a	n/a
0 gallon to 10,000 gallons	n/a	4.80	n/a
10,001 to 20,000 gallons	n/a	6.00	n/a
all gallons over 20,000 gallons	n/a	9.00	n/a
0 gallon to 144,000 gallons	n/a	n/a	7.00
all gallons over 144,000 gallons	n/a	n/a	9.25

four inch meter

0 gallon to 10,000 gallons	4.00	n/a	n/a
all gallons over 10,000 gallons	5.00	n/a	n/a
0 gallon to 10,000 gallons	n/a	4.80	n/a
10,001 to 20,000 gallons	n/a	6.00	n/a
all gallons over 20,000 gallons	n/a	9.00	n/a
0 gallon to 225,000 gallons	n/a	n/a	7.00
all gallons over 225,000 gallons	n/a	n/a	9.25

six inch meter

0 gallon to 10,000 gallons	4.00	n/a	n/a
all gallons over 10,000 gallons	5.00	n/a	n/a
0 gallon to 10,000 gallons	n/a	4.80	n/a
10,001 to 20,000 gallons	n/a	6.00	n/a
all gallons over 20,000 gallons	n/a	9.00	n/a
0 gallon to 450,000 gallons	n/a	n/a	7.00
all gallons over 450,000 gallons	n/a	n/a	9.25

Standpipe/Bulk rate

n/a	n/a	9.25
-----	-----	------

## RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed	Staff Recommended
5/8" x 3/4" Meter	\$23.00	\$27.60	\$28.00
3/4" Meter	33.75	40.50	45.00
1" Meter	56.25	67.50	65.00
1½" Meter	112.50	135.00	150.00
2" Meter	180.00	216.00	240.00
3" Meter	337.50	405.00	480.00
4" Meter	565.50	678.60	750.00
6" Meter	1,125.00	1,350.00	1,500.00
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
<u>5/8 inch x 3/4 inch meter</u>			
0 gallon to 10,000 gallons	4.00	n/a	n/a
all gallons over 10,000 gallons	5.00	n/a	n/a
0 gallon to 10,000 gallons	n/a	4.80	n/a
10,001 to 20,000 gallons	n/a	6.00	n/a
all gallons over 20,000 gallons	n/a	9.00	n/a
0 gallon to 4,000 gallons	n/a	n/a	4.50
4,001 to 10,000 gallons	n/a	n/a	7.00
all gallons over 10,000 gallons	n/a	n/a	9.25
<u>3/4 inch meter</u>			
0 gallon to 10,000 gallons	4.00	n/a	n/a
all gallons over 10,000 gallons	5.00	n/a	n/a
0 gallon to 10,000 gallons	n/a	4.80	n/a
10,001 to 20,000 gallons	n/a	6.00	n/a
all gallons over 20,000 gallons	n/a	9.00	n/a
0 gallon to 4,000 gallons	n/a	n/a	4.50
4,001 to 10,000 gallons	n/a	n/a	7.00
all gallons over 10,000 gallons	n/a	n/a	9.25
<u>one inch meter</u>			
0 gallon to 10,000 gallons	4.00	n/a	n/a
all gallons over 10,000 gallons	5.00	n/a	n/a
0 gallon to 10,000 gallons	n/a	4.80	n/a
10,001 to 20,000 gallons	n/a	6.00	n/a
all gallons over 20,000 gallons	n/a	9.00	n/a
0 gallons to 10,000 gallons	n/a	n/a	7.00
all gallons over 10,000 gallons	n/a	n/a	9.25

one and one-half inch meter

0 gallon to 10,000 gallons	4.00	n/a	n/a
all gallons over 10,000 gallons	5.00	n/a	n/a
0 gallon to 10,000 gallons	n/a	4.80	n/a
10,001 to 20,000 gallons	n/a	6.00	n/a
all gallons over 20,000 gallons	n/a	9.00	n/a
0 gallons to 20,000 gallons	n/a	n/a	7.00
all gallons over 20,000 gallons	n/a	n/a	9.25

two inch meter

0 gallon to 10,000 gallons	4.00	n/a	n/a
all gallons over 10,000 gallons	5.00	n/a	n/a
0 gallon to 10,000 gallons	n/a	4.80	n/a
10,001 to 20,000 gallons	n/a	6.00	n/a
all gallons over 20,000 gallons	n/a	9.00	n/a
0 gallon to 40,000 gallons	n/a	n/a	7.00
all gallons over 40,000 gallons	n/a	n/a	9.25

three inch meter

0 gallon to 10,000 gallons	4.00	n/a	n/a
all gallons over 10,000 gallons	5.00	n/a	n/a
0 gallon to 10,000 gallons	n/a	4.80	n/a
10,001 to 20,000 gallons	n/a	6.00	n/a
all gallons over 20,000 gallons	n/a	9.00	n/a
0 gallon to 144,000 gallons	n/a	n/a	7.00
all gallons over 144,000 gallons	n/a	n/a	9.25

four inch meter

0 gallon to 10,000 gallons	4.00	n/a	n/a
all gallons over 10,000 gallons	5.00	n/a	n/a
0 gallon to 10,000 gallons	n/a	4.80	n/a
10,001 to 20,000 gallons	n/a	6.00	n/a
all gallons over 20,000 gallons	n/a	9.00	n/a
0 gallon to 225,000 gallons	n/a	n/a	7.00
all gallons over 225,000 gallons	n/a	n/a	9.25

six inch meter

0 gallon to 10,000 gallons	4.00	n/a	n/a
all gallons over 10,000 gallons	5.00	n/a	n/a
0 gallon to 10,000 gallons	n/a	4.80	n/a
10,001 to 20,000 gallons	n/a	6.00	n/a
all gallons over 20,000 gallons	n/a	9.00	n/a
0 gallon to 450,000 gallons	n/a	n/a	7.00
all gallons over 450,000 gallons	n/a	n/a	9.25

Standpipe/Bulk rate

n/a	n/a	9.25
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Service Line and Meter Installation Charges

	Current Charges	Company Proposed			Staff Recommended		
		Service Line Charges	Meter Charges	Total Charges	Service Line Charges	Meter Charges	Total Charges
5/8" x 3/4" Meter	400.00	n/a	n/a	500.00	405.00	95.00	500.00
3/4" Meter	450.00	n/a	n/a	575.00	413.00	162.00	575.00
1" Meter	555.00	n/a	n/a	650.00	441.00	209.00	650.00
1 1/2" Meter	716.00	n/a	n/a	716.00	395.00	321.00	716.00
2" Turbo	1,572.00	n/a	n/a	1,572.00	727.00	845.00	1,572.00
2" Combined	n/a	n/a	n/a	n/a	n/a	n/a	n/a
3" Turbo	2,400.00	n/a	n/a	2,400.00	952.00	1,448.00	2,400.00
3" Combined	n/a	n/a	n/a	n/a	n/a	n/a	n/a
4" Turbo	3,516.00	n/a	n/a	3,516.00	1,310.00	2,206.00	3,516.00
4" Combined	n/a	n/a	n/a	n/a	n/a	n/a	n/a
6" Turbo	6,916.00	n/a	n/a	6,916.00	2,160.00	4,756.00	6,916.00
6" Combined	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Service Charges

	Current Charges	Company Proposed	Staff Recommended
Establishment	15.00	25.00	25.00
Establishment (after hours)	25.00	35.00	35.00
Reconnection (delinquent)	25.00	35.00	35.00
Reconnection (delinquent) after hours	25.00	45.00	45.00
Meter Test (If Correct)	35.00	35.00	35.00
Deposit	per rule	per rule	*
Deposit Interest	per rule	per rule	*
Re-Establishment (Within 12 Months)	Months off sys* min.	Months off sys* min.	**
NSF Check	15.00	20.00	20.00
Deferred Payment	1.00%	1.00%	1.00%
Meter Re-Read (If Correct)	10.00	15.00	15.00
Late Fee	n/a	1.50%	***

Staff's recommendations

- \* Per Commission Rules (R14-2-403.B).
- \*\* Months off system times the minimum (R14-2-403.D).
- \*\*\* 1.50 percent of the unpaid balance per month.

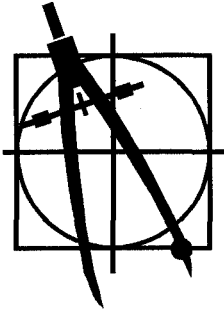
**TYPICAL BILL ANALYSIS**  
General Service 5/8 - Inch Meter

Average Number of Customers: 60

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	9,300	\$60.20	\$72.24	\$12.04	20.0%
Median Usage	5,429	\$44.71	\$53.66	\$8.95	20.0%
<u>Staff Proposed</u>					
Average Usage	9,300	\$60.20	\$83.10	\$22.90	38.0%
Median Usage	5,429	\$44.71	\$56.00	\$11.29	25.3%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$23.00	\$27.60	20.0%	\$28.00	21.7%
1,000	27.00	32.40	20.0%	32.50	20.4%
2,000	31.00	37.20	20.0%	37.00	19.4%
3,000	35.00	42.00	20.0%	41.50	18.6%
4,000	39.00	46.80	20.0%	46.00	17.9%
5,000	43.00	51.60	20.0%	53.00	23.3%
6,000	47.00	56.40	20.0%	60.00	27.7%
7,000	51.00	61.20	20.0%	67.00	31.4%
8,000	55.00	66.00	20.0%	74.00	34.5%
9,000	59.00	70.80	20.0%	81.00	37.3%
10,000	63.00	75.60	20.0%	88.00	39.7%
15,000	88.00	105.60	20.0%	134.25	52.6%
20,000	113.00	135.60	20.0%	180.50	59.7%
25,000	138.00	180.60	30.9%	226.75	64.3%
50,000	263.00	405.60	54.2%	458.00	74.1%
75,000	388.00	630.60	62.5%	689.25	77.6%
100,000	513.00	855.60	66.8%	920.50	79.4%
125,000	638.00	1,080.60	69.4%	1,151.75	80.5%
150,000	763.00	1,305.60	71.1%	1,383.00	81.3%
175,000	888.00	1,530.60	72.4%	1,614.25	81.8%
200,000	1,013.00	1,755.60	73.3%	1,845.50	82.2%



**Engineering Report  
Granite Mountain Water Company, Inc.  
By Dorothy Hains, P. E.  
Docket Nos. W-0267A-09-0333 (Rate) &  
W-02467A-09-0334 (Financing)**

**January 4, 2010**

**EXECUTIVE SUMMARY**

**Recommendations:**

1. Staff recommends that Granite Mountain Water Improvement Association ("the Company") use depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as delineated in Exhibit 6. (See §J and Exhibit 6 for a discussion and a tabulation of the recommended rates.)
2. Staff recommends approval of the meter and service line installation charges listed in the right-hand columns of Table 8. (See §L of report for discussion and details.)
3. Water testing expenses are based upon participation in the Arizona Department of Environmental Quality ("ADEQ") Monitoring Assistance Program. Annual testing expenses should be adjusted to \$1,823. (See §I and Tables 7 for discussion and details.)
4. A 20.5 percent water loss was determined in test year. The Company believed that water loss was due to theft during the test year. The Company stated that the theft condition had been addressed and water loss since the test year has been within acceptable limit. To support its position the Company provided water usage data collected after December 2008. The recent water usage data from January 2009 to September 2009 indicates that water loss has been reduced to 7.6 percent. Staff recommends that the Company continue to monitor its water use data to ensure that water loss remains within acceptable limits. (See §D for discussion and details.)
5. Staff recommends that a copy of the Approval of Construction for the new 50,000 gallons storage tank be docketed as a compliance item in this case within six months of the effective date of the order issued in this proceeding. (See §K of report for discussion and details.)

6. Staff recommends that the Company hire an Arizona registered engineer to design the 110,000 gallon storage addition recommended by Staff in this matter. Staff further recommends that a copy of the ADEQ Approval to Construct for this storage addition be docketed as a compliance item in this case within six months of the effective date of the order issued in this proceeding. Staff further recommends that a copy of the Approval of Construction for this storage addition be docketed as a compliance item in this case within eighteen months of the effective date of the order issued in this proceeding. (See §K of report for discussion and details.)
7. Staff recommends that \$10,705 be moved from Account "Other Plan & Misc. Equipment" (Account No. 339) to Account "Transmission & Distribution Mains" (Account No. 331). (See §L of report for discussion and details.)
8. Staff recommends that \$19,443 be moved from Account "Other Plan & Misc. Equipment" (Account No. 339) to Account "Pressure Tank" (Account No. 330.2). (See §L of report for discussion and details.)
9. Staff recommends that \$35,771 be moved from Account "Structures & Improvement" (Account No. 304) to Account "Pressure Tank" (Account No. 330.2). (See §L of report for discussion and details.)

**Conclusions:**

1. A check of the Compliance Section database indicated that the Company had no delinquencies. (See §H of report for discussion and details.)
2. The Company is in compliance with ADEQ water quality standards and is delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. (See §F of report for discussion and details.)
3. Staff concludes that in addition to the newly installed 50,000 gallon storage tank, the Company should install additional 110,000 gallon storage capacity to meet fire flow requirements. (See §K of report for discussion and details.)
4. Granite Mountain is located in the Prescott Active Management Area ("AMA") and ADWR has determined that Granite Mountain Water Company is currently in compliance with departmental requirements governing water providers and/or community water systems. (See §G of report for discussion and details.)



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**ENGINEERING REPORT**  
**GRANITE MOUNTAIN WATER COMPANY, INC.**  
**DOCKET NO. W-0267A-09-0333 (RATE) &**  
**DOCKET NO. W-02467A-09-0334 (FINANCING)**

**A. PURPOSE OF REPORT**

This report was prepared in response to the application of Granite Mountain Water Company, Inc. ("Granite Mountain" or "Company") before the Arizona Corporation Commission ("ACC" or "the Commission") for a rate increase and financing approval of a 50,000 gallon storage tank the Company recently installed. An inspection and evaluation of the Company's water system was conducted by Dorothy Hains, Staff Engineer, accompanied by Paul Levie, the Company's Owner, Matthew Lauterbach, the Company's office manager and Kimble McClymonds, the certified operator, on September 21, 2009.

**B. LOCATION OF SYSTEM**

The Company is located northeast of the City of Prescott in Yavapai County. Attached Exhibits 1 and 2 detail the location of the service area in relation to other Commission-regulated companies in Yavapai County and in the immediate area. The Company serves an area approximately three quarters of a square mile in size that includes portions of Sections 30 and 31, of Township 15 North, Range 2 West.

**C. DESCRIPTION OF SYSTEM**

*I. System Description*

The Company owns and operates a water system that consists of two wells, one storage tank, and a distribution system. The wells are located on two separate lots. During the inspection, Staff observed that installation of a new 50,000 storage tank was nearing completion at the Company's existing tank site. The Company served approximately 100 metered customers during the test year; the majority of which are residential. Exhibit 3 is a schematic drawing of the water system. A detailed listing of the Company's water system facilities are as follows:

Table 1 Well Data

Well #.	ADWR No.	Pump (HP)	Yield (GPM)	Casing Size (in inches)	Casing Depth (in ft)	(Meter Size inches)	Year drilled
Well #3	55-554078	15	60	8"/6"	500' deep	3	1996
Well #4	55-511771	15	22	8"	362' deep	2	2004
TOTAL		:	82				

In active Well

Well #.	ADWR No.	Pump (HP)	Yield (GPM)	Casing Size (in inches)	Casing Depth (in ft)	(Meter Size inches)	Year drilled
Well #1	55-511301	n/a	n/a	6"	400' deep	n/a	1985
Well #2	55-502453	½	5	7"	340' deep	3/8	1982
Well #5	55-622083	n/a:	n/a	n/a	n/a	n/a	1986

Table 2 Storage Tank

Capacity (Gallons)	Size (in feet)	Quantity	Location
19,000	26' in Height 11' in Diameter	1	Intersection of Levie Lane & Rainmaker Rd
Total: 19,000 gallons			

Table 3 Distribution Mains

Diameter (inches)	Material	Length (feet)
4	polyvinyl chloride ("PVC")	5,680
6	PVC	62,920
8	concrete	18,480

Table 4 Meters

Size (inches)	Quantity
5/8 x 3/4	71
¾	0
1	30
1½	1
2	0
3 (comp)	0
3 (turbo)	0
4 (comp)	0
4 (turbo)	0
6 (turbo)	0
Total	101

## *II. System Analysis*

The Company currently serves 101 metered customers. Staff concludes that the system needs additional storage to provide adequate service to existing customers. Additional discussion regarding the new 50,000 gallon storage tank is included in Section K.

### **D. WATER USAGE**

Table 5 summarizes water usage in the Company's CC&N area. Exhibit 4 is a graph that shows water consumption data in gallons per day ("GPD") per connection for the system during the test year.

Table 5 Water Usage in the System (Granite Mountain)

Month	Number of Customers	Water Sold (in gallons)	Water pumped (in gallons)	Water purchased (in gallons)	Daily Average (in gpd/customer)
Jan 08	98	454,270	524,100	0	150
Feb 08	98	314,454	413,300	0	115
Mar 08	98	427,806	777,600	0	141
Apr 08	101	1,046,960	1,280,700	0	346
May 08	104	708,120	899,600	0	220
Jun 08	102	1,824,798	2,044,100	0	596
Jul 08	103	925,848	1,166,500	0	290
Aug 08	100	1,143,658	1,391,100	0	369
Sep 08	100	768,688	1,049,400	0	256
Oct 08	99	782,378	1,035,700	0	255
Nov 08	98	536,872	723,700	0	183
Dec 08	101	456,942	506,700	0	146
total		9,390,794	11,812,500	0	
Average					135

#### *I. Water Sold*

Based on information provided by the Company, during the test year the Company experienced an overall daily average use of 135 GPD per customer, a high use of 369 GPD per customer, and a low use of 115 GPD per customer. The highest total monthly use occurred in June, when a total of 1,824,798 gallons were sold to 102 customers. The lowest total monthly use occurred in February, when 314,454 gallons were sold to 98 customers.

#### *II. Non-account Water*

Non-account water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between the water sold and the water produced

by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing.

The Company reported 9,390,794 gallons of water sold, and 11,812,500 gallons pumped during the test year. The calculated water loss in Granite Mountain system was 20.5 percent, which exceeds Staff's recommended 10 percent allowable limit.

The Company believes that water loss was due to theft during the test year. The Company stated that the theft condition had been addressed and water loss since the test year has been within acceptable limit. To support its position the Company provided water usage data collected after December 2008. The recent water usage data from January 2009 to September 2009 indicates that water loss has been reduced to 7.6 percent. Staff recommends that the Company continue to monitor its water use data to ensure that water loss remains within acceptable limits.

#### **E. GROWTH PROJECTION**

Based on the service meter data contained in the Company's annual reports, the number of customers increased from 40 at the end of 1999 to 101 at the end of 2008, which results in an average growth rate of 7customers per year for the period. Based on the linear regression analysis, the Company could serve approximately 135 customers by end of 2013. The following table summarizes both actual and projected growth in the Company's certificated service area.

Table 6 Actual and Projected Growth

Year	Nos. of Customers	
1999	40	Reported
2000	48	Reported
2001	44	Reported
2002	49	Reported
2003	59	Reported
2004	67	Reported
2005	81	Reported
2006	83	Reported
2007	96	Reported
2008	101	Reported
2009	106	Estimated
2010	113	Estimated
2011	121	Estimated
2012	128	Estimated
2013	135	Estimated

#### **F. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE**

Staff received a compliance status report from ADEQ dated May 27, 2009, in which ADEQ stated that the system (ADEQ Public Water System Identification No. 13-150) has no major deficiencies. ADEQ has determined that the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

#### **G. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE**

Granite Mountain is located in the Prescott Active Management Area ("AMA") as designated by ADWR, and is subject to AMA reporting and conservation rules. Staff received a compliance status report from ADWR dated October 20, 2009, in which ADWR has determined that Granite Mountain Water Company, Inc. is currently in compliance with departmental requirements governing water providers and/or community water systems.

#### **H. ACC COMPLIANCE**

A check of the Compliance Section database indicated that Granite Mountain has no delinquencies (Per ACC database compliance check dated August 3, 2009).

#### **I. WATER TESTING EXPENSES**

Granite Mountain is subject to mandatory participation in the ADEQ Monitoring Assistance Program ("MAP"). Staff calculated the testing costs based on the following assumptions:

1. MAP will do baseline testing on everything except copper, lead, bacteria, and disinfection by-products.
2. ADEQ testing is performed in 3-year compliance cycles. Therefore, monitoring costs are estimated for a 3-year compliance period and then presented as a pro forma expense on an annualized basis.
3. MAP fees were calculated from the ADEQ MAP rules.
4. All monitoring expenses are based on Staff's best knowledge of lab costs and methodology and one point of entry.
5. The estimated water testing expenses represent a minimum cost based on no "hits" other than lead and copper, and assume compositing of well samples. If any constituents were found, then the testing costs could dramatically increase.

Table 7 shows the estimated annual monitoring expense, assuming participation in the MAP program. Water testing expenses should be adjusted to Staff's annual expense amount of **\$1,823** shown in Table 7.

Table 7 Water Testing Cost

Monitoring – 2 wells (Tests per 3 years, unless noted.)	Cost per test	No. of tests per three year period	Total cost per three year period	Annual Cost
Bacteriological – monthly	\$20	72	\$1,440	\$480
Inorganics – Priority Pollutants	\$300	MAP	MAP	MAP
Radiochemical – (1/ 4 yr)	\$60	MAP	MAP	MAP
Phase II and V:				
IOC's, SOC's, VOC's	\$2,805	MAP	MAP	MAP
Nitrites	\$20	MAP	MAP	MAP
Nitrates – annual	\$40	12	MAP	MAP
Asbestos – per 9 years	\$180	2 1/3	MAP	MAP
Lead & Copper – annual*	\$45	15	\$675	\$225
TTHM/HHAs – per 3 years	\$385	1	\$385	\$128
Maximum chlorine residual levels	\$20	72	\$1,440	\$480
MAP fees (annual)				\$509.57
Total				<b>\$1,823</b>

## J. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within the range of anticipated equipment life. These rates are presented in Exhibit 6, and should be used to calculate the annual depreciation expense for the Company in this application. It is recommended that the Company use depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as delineated in Exhibit 6.

## K. FINANCING (Docket No. W-02467A-09-0334)

The Company is requesting approval to incur debt in the amount of \$96,020 which will be used to recover expenses for water infrastructure and the new 50,000 gallon storage tank installation that is nearing completion. Staff recommends that a copy of the Approval of



Construction for the new 50,000 gallons storage tank be docketed as a compliance item in this case within six months of the effective date of the order issued in this proceeding. However, Staff's engineering evaluation indicates the Granite Mountain water system needs significantly more storage capacity in addition to the new 50,000 gallon storage tank.

More storage is needed due in part to the dimensions and location of the new 50,000 gallon storage tank. The new 50,000 gallon tank was installed at the same elevation as the existing 19,000 gallon tank however the 19,000 gallon tank is 26-foot in height while the new 50,000 gallon tank is only 16-foot in height. Since both tanks are interconnected and at the same elevation the Company can only partially fill its 19,000 gallon tank. If the Company attempts to fill the 19,000 gallon tank where the water level in the tank is higher than the height of the 50,000 gallon tank (16 feet) increasing hydraulic pressure could damage the new 50,000 gallon tank. Therefore, the 19,000 gallon tank will effectively have a usable capacity of only 11,700 gallons. More storage is also needed because the fire flow requirement has increased and is now 1,000 GPM for at least 1 hour.<sup>1</sup> Staff calculated that 110,000 gallons of additional storage is now needed to meet fire flow requirements.<sup>2</sup>

Staff recommends that the Company hire an Arizona registered engineer to design the 110,000 gallon storage addition recommended by Staff in this matter. Staff further recommends that a copy of the ADEQ Approval to Construct for this storage addition be docketed as a compliance item in this case within six months of the effective date of the order issued in this proceeding. Staff further recommends that a copy of the Approval of Construction for this storage addition be docketed as a compliance item in this case within eighteen months of the effective date of the order issued in this proceeding.

## **L. OTHER ISSUES**

### *I. Service Line and Meter Installation Charges*

Staff recommends approval of separate meter and service line installation charges as shown under the Staff Recommended columns in Table 8. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff. Staff's recommended charges listed in the table below should be adopted.

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1. The Company is located in the Central Yavapai Fire District ("CYFD") service area. The new 1000 GPM fire flow requirement superseded the CYFD 500 GPM requirement established in 1996.

2. 110,000 gallons of storage capacity is needed in addition to the current storage capacity with the new 50,000 gallon storage tank equipped and in-service as described above.

Table 8 Service Line and Meter Installation Charges

Meter Size	Company Current Total Charges	Company Proposed Total Charges	Staff Recommended Service Line Charges	Staff Recommended Meter Charges	Staff Recommended Total Charges
5/8 x 3/4-inch	\$400	\$500	\$405	\$95	\$500
3/4-inch	\$450	\$575	\$413	\$162	\$575
1-inch	\$555	\$650	\$441	\$209	\$650
1-½-inch	\$716	\$716	\$395	\$321	\$716
2-inch (turbo)	\$1,572	\$1,572	\$727	\$845	\$1,572
2-inch (compound)	N/A	N/A	N/A	N/A	N/A
3-inch (turbo)	\$2,400	\$2,400	\$952	\$1,448	\$2,400
3-inch (compound)	N/A	N/A	N/A	N/A	N/A
4-inch (turbo)	\$3,516	\$3,516	\$1,310	\$2,206	\$3,516
4-inch (compound)	N/A	N/A	N/A	N/A	N/A
5-inch	N/A	N/A	N/A	N/A	N/A
6" (turbo)	\$6,916	\$6,916	\$2,160	\$4,756	\$6,916
6-inch (compound)	N/A	N/A	N/A	N/A	N/A

## *II. Curtailment Tariff*

The Company has an approved curtailment tariff on file with the Commission.

## *III. Cross Connection or Backflow Tariff*

The Company has an approved backflow prevention tariff on file with the Commission.

## *IV. Reclassification*

1. The Company in 1998 listed \$10,705 in "Other Plant & Misc. Equipment" account (Account No. 339). During the inspection, Staff learned this amount of money was paid for a main extension to serve Granite Park Ranch Subdivision. Staff recommends that \$10,705 be moved to the Account of "Transmission & Distribution Mains" (Account No. 331).
2. The Company in 1999 listed \$19,443 in "Other Plant & Misc. Equipment" account.

During the inspection, Staff learned this amount of money was paid for the 2,000 gallon pressure tank. Staff recommends that \$19,443 be moved to the Account of "Pressure Tank" (Account No. 330.2).

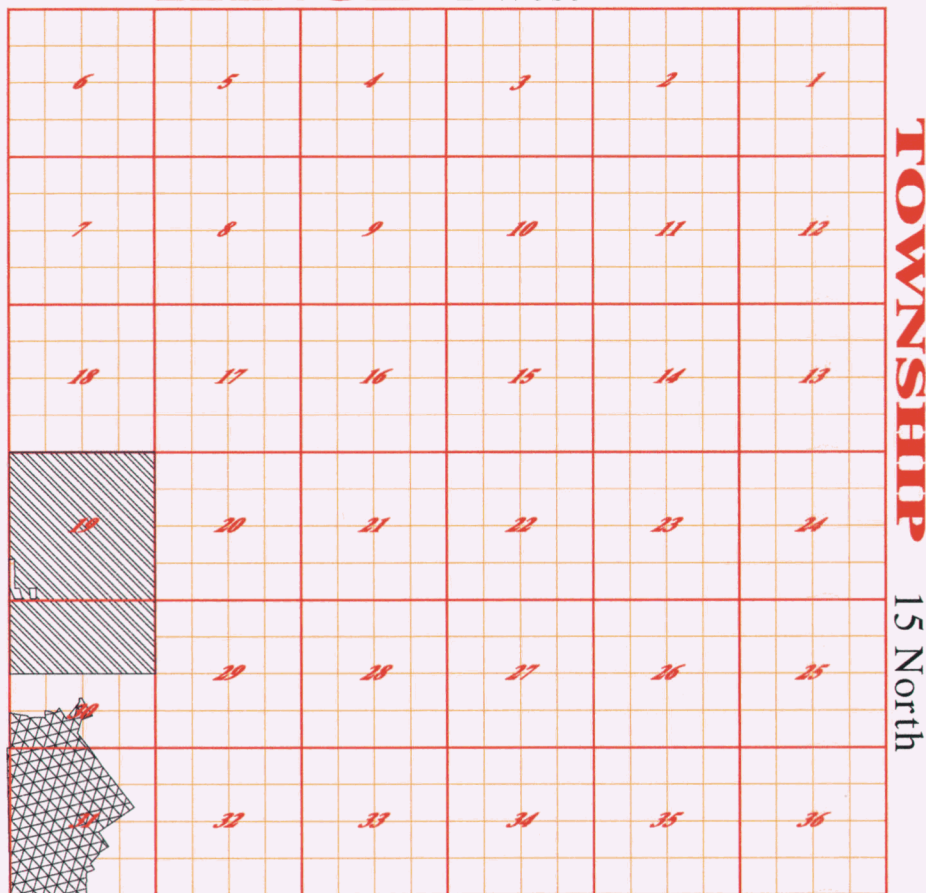
3. The Company in 1999 listed \$35,771 in "Structures & Improvement" account. During the inspection, Staff learned this amount of money was paid for the earthworks, the building to enclose the pressure tank. Staff recommends that \$35,771 be moved to the Account of "Pressure Tank" (Account No. 330.2).

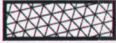
**EXHIBIT 1**


**Granite Mountain Certificate Service Area**

**COUNTY:** *Yavapai*

**RANGE** 2 West

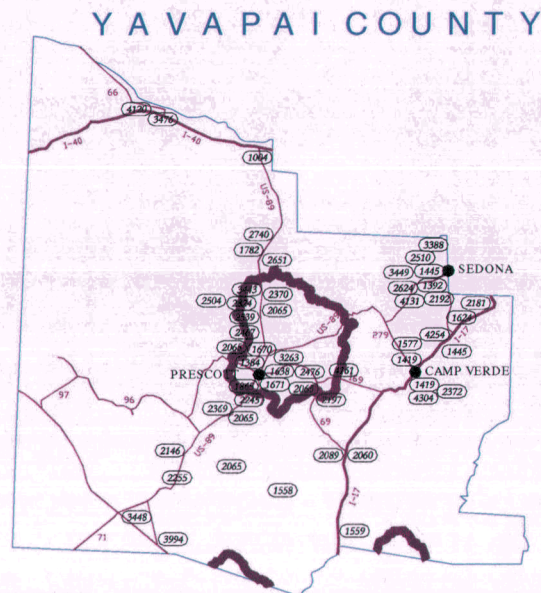


 U-2467 (1)  
Granite Mountain Water Company

 U-2539 (1)  
Granite Oaks Water Users Association

## EXHIBIT 2.

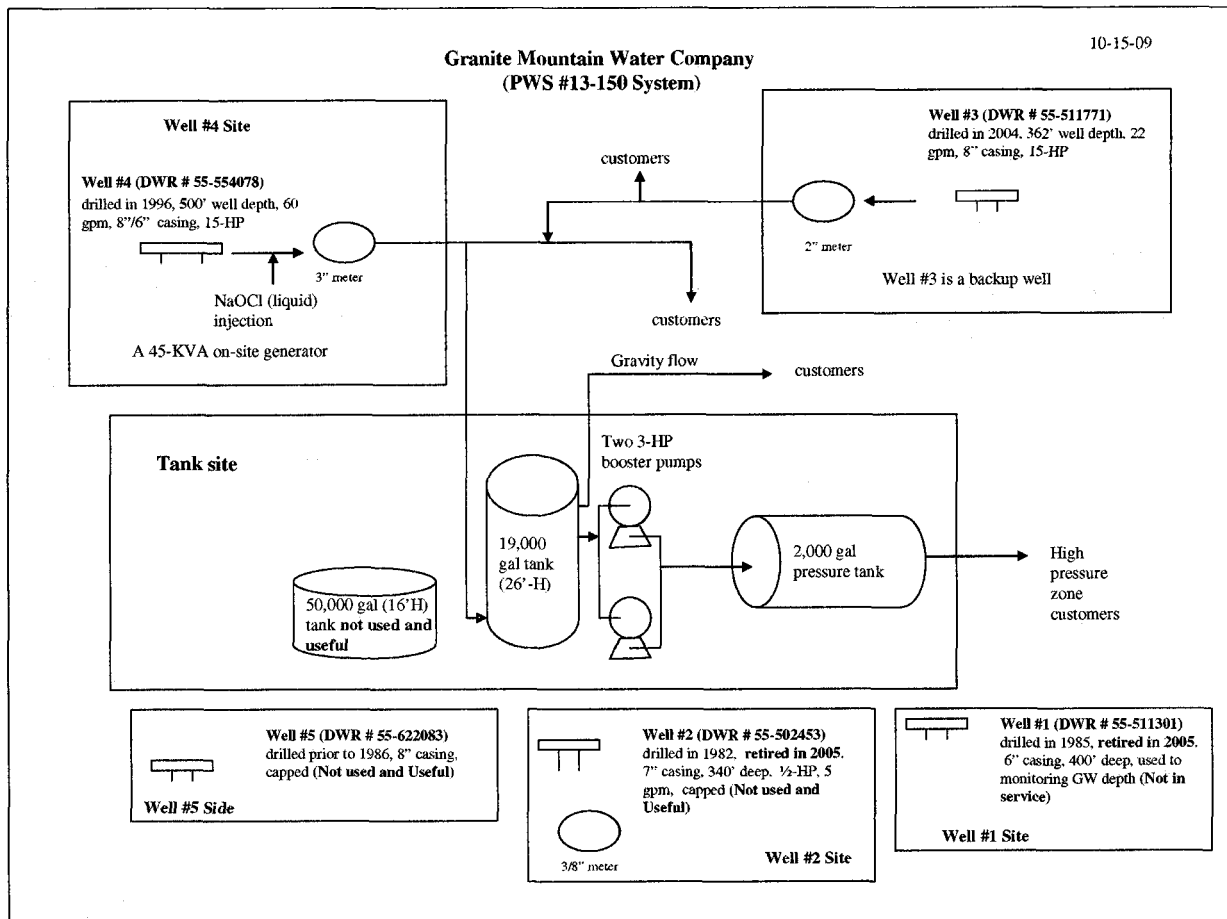
### LOCATION OF GRANITE MOUNTAIN SERVICE AREA



1782	ABRA WATER COMPANY, INC.	1638	HOLIDAY HILLS WATER COMPANY
2740	ANTELOPE LAKES WATER COMPANY	2197	HUMBOLDT WATER SYSTEM, INC.
3443	APPALOOSA WATER COMPANY	2824	ICR WATER USERS ASSOCIATION
1445	ARIZONA WATER COMPANY	2624	MICHAELS RANCH WATER USERS' ASSOCIATION
1004	ASHFORK DEVELOPMENT ASSOCIATION, INC.	2651	JUNIPER WELLS WATER COMPANY
3476	BN LEASING CORPORATION	1557	LAKE VERDE WATER COMPANY
1624	BIG PARK WATER COMPANY	2192	LITTLE PARK WATER COMPANY, INC.
2510	BOYNTON CANYON ENCHANTMENT HOMEOWNERS ASSOC.	2245	LOMA ESTATES WATER COMPANY, LLC
2089	BRADSHAW MOUNTAIN VIEW WATER COMPANY	2504	MEADOW WATER COMPANY
2476	BRADSHAW WATER COMPANY, INC.	4254	MONTEZUMA RIM ROCK WATER COMPANY, LLC
1419	CAMP VERDE WATER SYSTEM	4304	OAK CREEK PUBLIC SERVICE, LLC
3994	CDC WICKENBURG WATER, LLC	1392	OAK CREEK WATER COMPANY NO. 1
2370	CHINO MEADOWS II WATER COMPANY, INC.	2146	PEEPLER VALLEY WATER COMPANY
1559	COLDWATER CANYON WATER COMPANY	2181	PINE VALLEY WATER COMPANY
2060	CORDES LAKES WATER COMPANY	3448	RAINBOW PARKS, INC.
4131	CROSS CREEK RANCH WATER COMPANY	3449	SEDONA VENTURE (MHC OPERATING LTD PARTNERSHIP)
1558	CROWN KING WATER COMPANY, INC.	3388	SEVEN CANYONS WATER COMPANY
1384	DELL'S WATER COMPANY, INC.	1671	SHERMAN PINES WATER COMPANY
3263	DIAMOND VALLEY WATER USERS ASSOCIATION	2372	VERDE LAKES WATER CORPORATION
4120	GRAND CANYON CAVERNS AND INN, LLC	2369	WALDEN MEADOWS COMMUNITY COOPERATIVE
1670	GRANITE DELLS WATER COMPANY	4161	WHITE HORSE RANCH OWNERS ASSOCIATION, INC.
2467	GRANITE MOUNTAIN WATER COMPANY, INC.	2065	WILHOIT WATER COMPANY, INC.
2539	GRANITE OAKS WATER USERS ASSOCIATION	2255	YARNELL WATER IMPROVEMENT ASSOCIATION
1865	GROOM CREEK WATER USERS ASSOCIATION		

## EXHIBIT 3

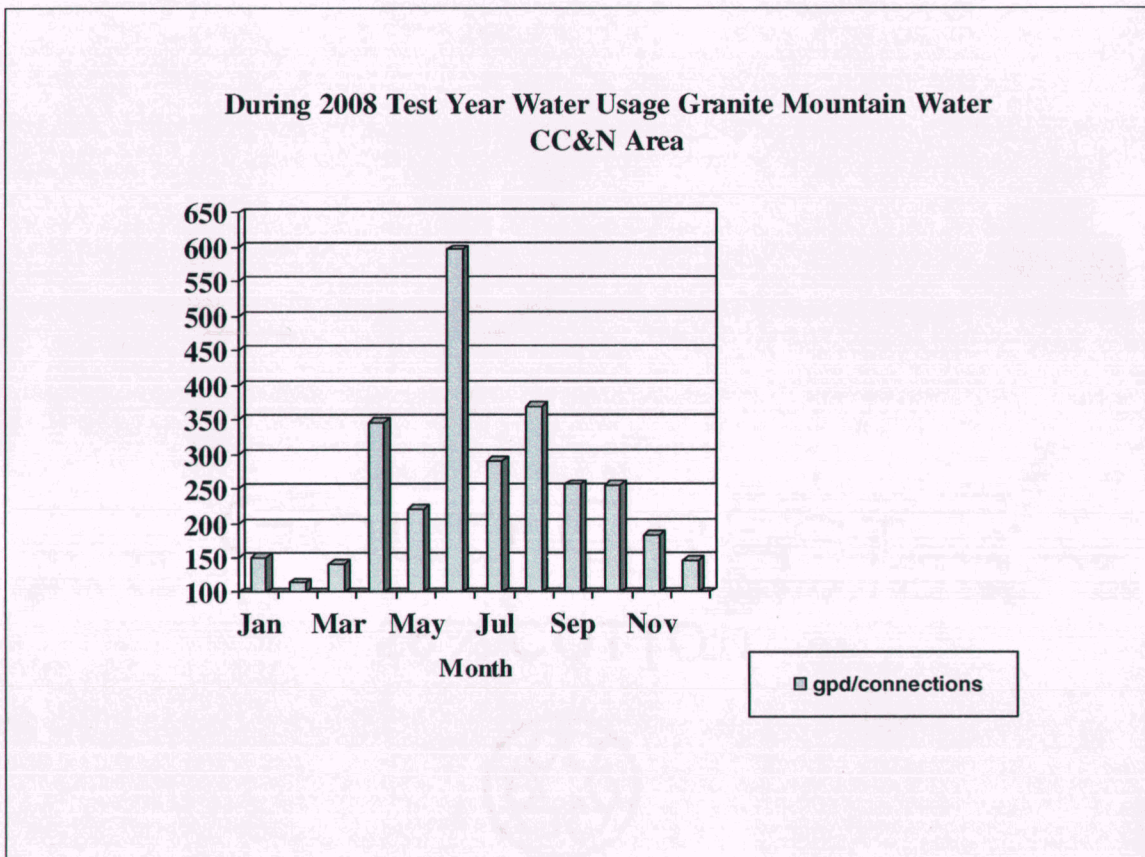
### SYSTEMATIC DRAWING





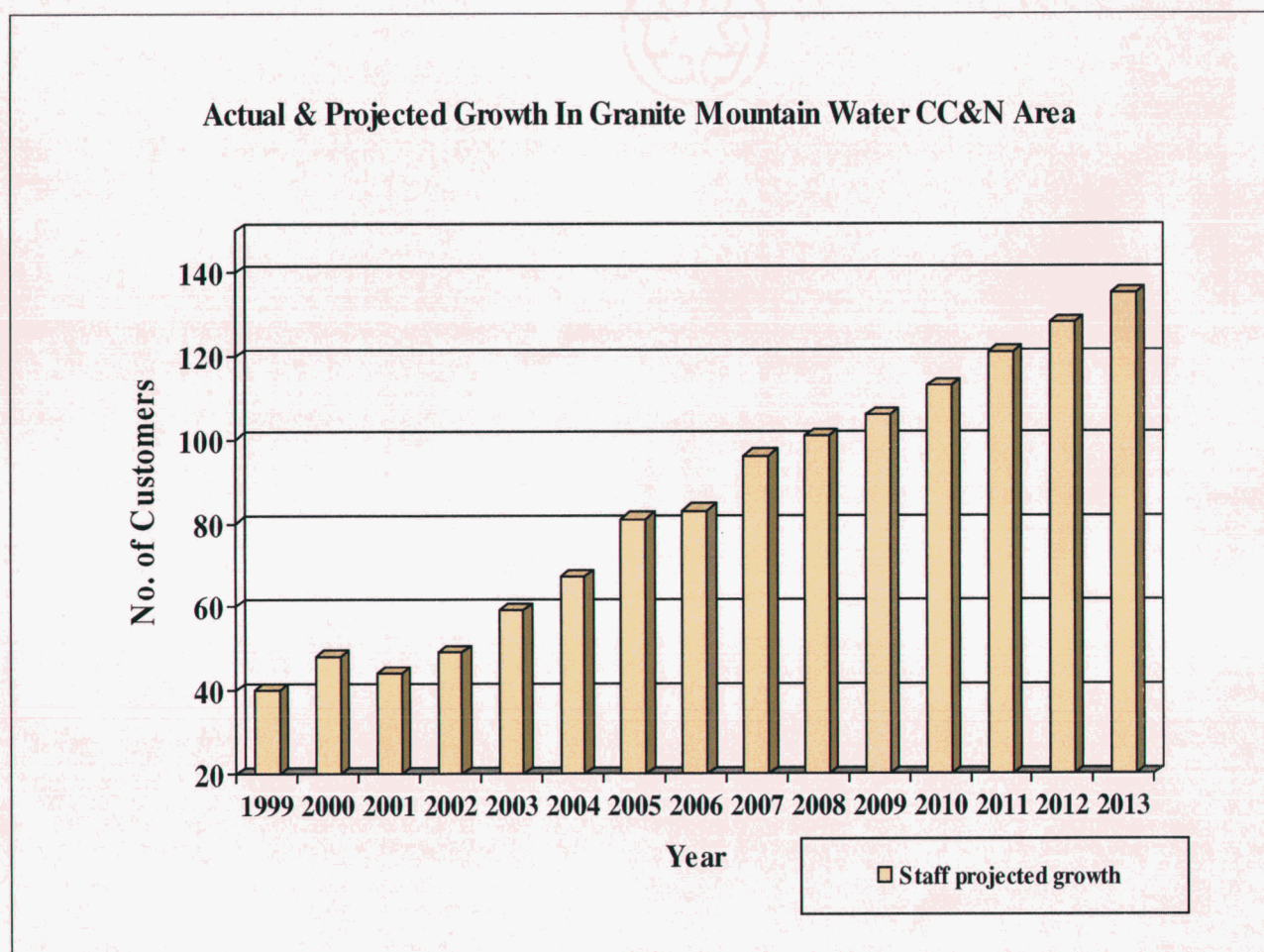
#### EXHIBIT 4

#### WATER USAGE ON THE GRANITE MOUNTAIN SERVICE AREA



**EXHIBIT 5**

**ACTUAL AND PROJECTED GROWTH IN GRANITE MOUNTAIN SERVICE AREA**





## EXHIBIT 6

### WATER DEPRECIATION RATES

Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----